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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0838

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 3782

RUEHBJ/AMEMBASSY BEIJING 1600

RUEHKO/AMEMBASSY TOKYO 1467

RUEHIT/AMCONSUL ISTANBUL 2036

RUEATRS/DEPT OF TREASURY WASHDC

RHEHNSC/NSC WASHDC

RUCPDOC/DEPT OF COMMERCE WASHDC

RHMFSS/CDR USCENTCOM MACDILL AFB FL

RUEAAIA/CIA WASHDC

RHEFDIA/DIA WASHDC

RUEKJCS/JOINT STAFF WASHDC

RUEKJCS/SECDEF WASHINGTON DC

RUEHVEN/USMISSION USOSCE 2532

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000652

SIPDIS

STATE FOR SCA/CEN, EEB

STATE PLEASE PASS TO USTDA DAN STEIN

COMMERCE FOR HUEPER

TREASURY FOR BAKER/LANIER

E.O. 12958: DECL: 05/16/2018

TAGS: PGOV ECON SOCI TX

SUBJECT: TURKMENISTAN: UNSETTLED TIMES, BUT NO REVOLUTION  
IN SIGHT

REF: A. ASHGABAT 0551

1B. ASHGABAT 0076

1C. ASHGABAT 0546

1D. ASHGABAT 0514

1E. 07 ASHGABAT 0968

Classified By: CDA RICHARD E. HOAGLAND: 1.4 (B), (D).

11. (SBU) SUMMARY: Even though 2008 has brought a number of economic displacements that have put new pressures on people used to minimal price raises and an extensive system of subsidies, Turkmenistan remains far from revolt. Grumbling -- a new phenomenon that would never have been heard, or permitted, under former President-for-Life Niyazov -- is increasing, but historical and cultural conditions have given most Turkmen a high tolerance for imperfect government. Concern for the possibility of landing in the same social or economic situation as its neighbors, Afghanistan, Iran, and Tajikistan -- even worse than Turkmenistan's -- also helps to temper discontent in Turkmenistan. Most of all, Turkmenistan's huge hydrocarbon reserves, estimated to top \$10 billion in revenues in 2008, and correspondingly sizable foreign cash reserves give the government a ready fund with which to respond if discontent seems to be getting out of hand. END SUMMARY.

A TOUGH FOUR MONTHS

12. (C) Following years of relatively stable prices enforced through both an extensive system of subsidies and state price controls, Turkmenistan's citizens are receiving an unaccustomed course in fiscal management. A convergence of economic factors over the last several months has simultaneously driven up prices, while effectively decreasing most citizens' savings, creating substantial uncertainty among the population:

-- Devaluation of the dollar/unification of the currency exchange rate. At the urging of international financial

institutions, western economic experts and foreign businessmen, President Berdimuhamedov last autumn instructed his officials to unify Turkmenistan's dual exchange rate. Since January 1, the value of the dollar gradually dropped from an unofficial rate of about 23,500 manat per dollar to 14,250 manat per dollar. This move has strengthened the purchasing power of those whose salaries are in manat. However, for those many citizens who have elected to hold their savings in dollars stored "under the mattress" (rather than trust their savings to Turkmenistan's banking system or save in bulky manat), this has effectively decreased their savings by about 40%. (NOTE: The manat equivalent of \$100 is a wad of manat, more than an inch thick. Currently, the highest denomination bill is 10,000 manat, now equal to about 70 cents. END NOTE.) This has also hurt those individuals paid in dollars and those who had been planning to make large purchases (apartments and cars, for example), charged in manat but paid in less-bulky dollars.

-- Gradual elimination of gasoline subsidies. In February 2008, the government raised gasoline prices from 400 manat to 3100 manat per liter. To help cushion the impact, the government gave citizens 120 liters of nearly free gas per month. However, this move resulted almost overnight in substantially higher transportation prices that were passed on to consumers, as well as substantially higher prices at the gas stations for those (many) citizens whose monthly gasoline consumption exceeds 120 liters. In addition, people must wait in line at banks to get the coupons for the 120 liters of free gas. Those with little time and schedules that don't allow them to spend hours in a bank queue have

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opted to forego the coupons.

-- Inflation. Rising world food prices and Turkmenistan's heavy dependence on imports have resulted in increasing prices for most goods at the markets.

Although the dollar's devaluation seems finally to have resulted in April in a gradual leveling of prices at the markets, the European Bank for Reconstruction and Development (EBRD) has estimated that inflation in the first four months of 2008 was about 34%. By comparison, EBRD claims inflation in 2007 to have been only about 7%.

#### ...MADE WORSE BY INCOMPETENCE AND LACK OF INFORMATION

¶3. (SBU) The lack of information and officials' poor handling of the roll-out for the larger reforms -- especially unification of the currency exchange rate -- exacerbated many citizens' uncertainties. Relying on Turkmenistan's extensive rumor system, individuals often rushed to change dollars when they heard of impending rate changes. While occasionally these alarms proved accurate, many were hurt by false rumors -- most notably in November, when the unofficial rate dropped from 23,500 manat to 12,000 manat in two days (the rate subsequently went back up to 23,000 manat).

#### NOWHERE CLOSE TO THE BOILING POINT

¶4. (SBU) Foreign experts agree that exchange rate unification and a gradual phasing out of Turkmenistan's system of subsidies are important for the country's transition to a market economy. But such displacements -- tough to absorb under any conditions -- have hit especially hard Turkmenistan's citizens, used to Niyazov's social-safety-net system of subsidies and stable prices and burdened by high unemployment rates. While grumbling has increased notably since the beginning of the year (and hit a peak in late April and early May, when speculators were especially active), all here agree that Turkmenistan is nowhere close to revolt.

¶5. (SBU) There are a number of reasons for this conclusion:

-- Turkmen have low expectations for government. There has been no concept or tradition of Western democracy -- or even of a government that genuinely serves the people -- at any point in Turkmenistan's history. Before Russia gained control of Turkmenistan in 1894, Turkmenistan was ruled by various empires and leaders, including Alexander the Great, Genghis Khan, Persian shahs, Bukharan emirs, Khivan khans, and Afghan monarchs. When Turkmen utter the not-uncommon phrase, "The czar is the czar," they mean that it doesn't matter who is in charge of the country. The leader will do what he wants, because it is the way it has always been.

-- Turkmen are used to coping. Turkmen have learned to deal with problems by becoming politically apathetic. Instead, they turn inward, relying on their very strong extended family networks for support. The grumbling itself is a new phenomenon that would never have been heard -- or permitted -- under the former president.

-- There is no active opposition. Fifteen years of Niyazov's authoritarianism, along with Russian black propaganda touting the dangers of civil society, have left Turkmenistan without an internal opposition. Threatened with imprisonment in the past, most who disagreed with the system either learned to turn inwards, or left the country. While there are expatriate opposition groups, especially in Europe, those groups have a history of disunity and a reputation for

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promoting self-interested agendas as much as human rights. Although there is no quantifiable method to assess the popularity of these groups, numerous conversations with local people have yielded little, if any, support. Instead, most simply refer to the leaders of the overseas opposition -- a number of whom have been tainted by the perception that they committed financial crimes in their earlier incarnations as office-holders in Turkmenistan -- as "the ones who made it out before they were imprisoned." This leaves Turkmenistan without a figure who could serve as a rallying point for an opposition.

-- No matter how bad the economic situation here is -- and most agree it still is not dire -- most Turkmen are very conscious that they are still much better off than many of their neighbors. Turkmenistan's location has allowed its citizens to see first-hand the problems brought by instability (Tajikistan and Afghanistan) and religious extremism (Afghanistan and Iran). Such solutions -- and the often-tragic results of those solutions -- simply do not appeal.

#### TURKMENISTAN HAS FUNDS TO COVER UP MISTAKES

16. (C) Most of all, experts agree that Berdimuhamedov has cash reserves available that he could use to help respond to economic displacements before they lead to instability. Local European Bank for Reconstruction and Development (EBRD) representative Tony Myron says that even if one takes into consideration the ever-growing number of building projects, Turkmenistan is spending much less than its revenues, thanks to its huge hydrocarbon reserves. Myron asserts that Turkmenistan has so much money that it can cover up mistakes and inefficiencies. According to Myron, the International Monetary Fund (IMF) estimated that Turkmenistan held \$8 billion in foreign reserves at the end of 2006, most of which is held in U.S. currency at Deutsche Bank. Myron said that Turkmenistan held around \$11 billion in foreign reserves halfway through the last quarter of 2007, and estimated that Turkmenistan would earn \$8-8.5 billion from exports in 2008. By the end of 2008, this figure would rise by \$2 billion due to newly renegotiated price agreements with Gazprom. Turkmenistan will have earned about \$10-10.5 billion in 2008 alone.

17. (SBU) Although there have been upsurges in grumbling following the implementation of every new reform, it is

notable that the situation has always quickly calmed down. (Although in rare cases the grumbling has resulted in the government backing down, such as with the removal of individually-owned satellite dishes. This display of government responsiveness is also a positive development.) We believe the woe-and-misery grumbling we reported 3-4 weeks ago has decreased, because people have gotten used to the latest changes and because the government is beginning to recognize that it must find ways to mitigate some of the sharpest displacements. For now, food prices are leveling off. In addition, food prices are unlikely to increase substantially over the summer because local agricultural products -- the staples during the hot summer months -- are beginning to find their way back into the markets. This could buy the government some time to identify how it might roll out its next reforms. We hope -- with advice from the IMF and others -- it will implement those reforms more effectively.

HOAGLAND